

## **DRAFT RECLAMATION MANUAL RELEASE**

**Comments on this draft release must be submitted to [cchapman@usbr.gov](mailto:cchapman@usbr.gov) by December 20, 2015.**

### **Background and Purpose of the Following Draft Directive and Standard (D&S)**

The goal of preparing this D&S document and providing stakeholders with the opportunity to comment on it in draft form is to enhance common understanding of the Bureau of Reclamation's responsibilities and procedures for calculating and recording interest on investments.

The revisions to the D&S were staffed through the Regional Finance Policy Review Team which consists of a representative from each Regional Finance Office, the Reclamation Integration Office, the Reports and Analysis Team, and the Compliance and Audit Team staff until we arrived at this consolidated document.

The Reclamation Manual is used to clarify program responsibility and authority and to document Reclamation-wide methods of doing business. All requirements in the Reclamation Manual are mandatory.

See the following pages for the draft D&S.

# Reclamation Manual

## Directives and Standards

<b>Subject:</b>	Interest on Investment (IOI)
<b>Purpose:</b>	To establish the responsibilities and the procedures for calculating and recording IOI. The benefit of this Directive and Standard (D&S) is the Reclamation-wide standardization of the calculation of IOI on the unamortized balance of costs allocated to reimbursable projects.
<b>Authority:</b>	Reclamation Project Act of 1939 (Pub. L. 76-260; <a href="#">43 USC 485</a> ); Water Supply Act of 1958 ( <a href="#">Pub. L. 85-500</a> , Title III); Reclamation Safety of Dams Act Amendments of 1984 ( <a href="#">Pub. L. 98-404</a> ; 98 Stat. 1481); Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standard ( <a href="#">SFFAS</a> ) <a href="#">6</a> , <i>Accounting for Property, Plant, and Equipment</i> , as amended; FASAB, <a href="#">SFFAS</a> <a href="#">7</a> , <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> ; FASAB, <a href="#">SFFAS</a> <a href="#">44</a> , <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i> ; U.S. Government <a href="#">Standard General Ledger</a> ; and; GAO's Accounting Principles, Standards, and Requirements, <a href="#">Title 2</a> Standards Not Superseded by FASAB Issuances, Standard I10, Imputed Interest
<b>Approving Official:</b>	Director, Management Services Office
<b>Contact:</b>	Business Analysis Division, Compliance and Audit Team, (84-27410)

1. **Introduction.** Treasury provides Congressional authorized funding to Reclamation from various sources such as the Reclamation Fund, the General Fund, and others. Treasury incurs costs for providing this funding. Reclamation employs a cost allocation process to assign costs associated with multi-purpose plants/features to the various purposes (principally to power, irrigation, municipal and industrial (M&I), fish and wildlife enhancements, recreation, and flood control). Generally, only the costs associated with power, irrigation, and M&I are reimbursable. Usually only M&I and power projects are subject to interest. In some cases, fish and wildlife and recreation projects are reimbursable and subject to interest according to the project legislation. Interest is also applicable to loans under the [Small Reclamation Project Act of 1956](#) (70 Stat. 1044). Interest during Construction (IDC) and IOI are components of the cost of money to the Federal government. Reclamation calculates and recovers the interest components in addition to construction and operation and maintenance costs for reimbursable project purposes in accordance with project legislation. Reclamation collects, records, and deposits construction repayments that include IDC/IOI into specific Treasury accounts. Reclamation must record both imputed costs and imputed funding sources.
2. **Applicability.** This D&S applies to all Regional Finance personnel involved in the calculation and recording of IOI.

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### 3. Definitions.

- A. **Construction in Abeyance (CIA).** Programs or features Reclamation has indefinitely suspended or terminated that Congress has not officially de-authorized.
- B. **Final Cost Allocation (FCA).** The allocation and distribution of costs and repayment to the several purposes, divisions, and repaying entities consistent with legislative provisions, actual or expected contract relationships, and official administrative determinations.
- C. **Impairment.** A significant and permanent decline, in whole or in part, whether gradual or sudden, in the service utility of General Property, Plant, and Equipment (G-PP&E) or expected service utility for construction work in progress. The events or changes in circumstance that lead to the impairment are not normal and ordinary. At the time of the G-PP&E's acquisition, Reclamation would not have expected the event or change in circumstance during the useful life of the G-PP&E or, if Reclamation did so expect, would not find the event or change in circumstance sufficiently predictable to be of use in estimating its useful life.
- D. **IOI.** The interest that accrues on the unamortized balance of cost Reclamation allocates to power, M&I, and other interest-bearing reimbursable functions, beginning with a notice of substantial completion of the work and continuing for the duration of the repayment term.

### 4. Responsibilities.

- A. **Regional Finance Office.** The accountants in the regional finance office are responsible for calculating (when applicable) and recording IOI as an imputed cost at least annually in accordance with the procedures in this D&S. The regional accountants will review the results of the calculation of IOI prepared outside of the finance office for reasonableness (i.e., compare the amount of this year's IOI to last year's taking into consideration any increase or decrease to the investment amount).
  - B. **Regional Staff Knowledgeable in Project Cost Allocation Procedures.** The regional staff knowledgeable in project cost allocation procedures will prepare the FCA to determine the allocation and distribution of costs and repayment to the purposes, division, and repaying entities in accordance with D&S, *Project Cost Allocation* (PEC 01-02).
5. **IOI.** Generally, the costs (original construction costs and costs of additions and betterments regardless of source of funds) Reclamation allocates to reimbursable functions, except irrigation, are subject to IOI unless law provides otherwise. Appendix A contains the process for calculating IOI for investments repaid from revenue.

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- A. Calculate IOI on the unamortized balance of costs (including movable property) Reclamation allocates to power, M&I, reimbursable recreation, reimbursable fish and wildlife, other interest-bearing reimbursable functions, and loans under the Small Reclamation Project Act of 1956.
  - B. In some circumstances Reclamation, Western Area Power Administration (Western), Bonneville Power Administration (BPA), and/or the Corps of Engineers may all have interest-bearing investments on a project. Maintain close coordination with all parties when computing IOI particularly in regard to any interest reduction for repayment during a fiscal year.
  - C. When applicable, Reclamation should appropriately adjust all prior years' IOI when allocations of multipurpose costs to interest-bearing functions change. Delaying the adjustment until the regional staff knowledgeable in project cost allocation procedures completes the FCA is acceptable.
6. **Source of Data.** The base for computing IOI is an unamortized balance calculation (reimbursable plant cost less repayments realized). The source of the calculation data is
- A. amortization schedules from the repayment contract,
  - B. trial balance,
  - C. cost summary report (SPL-017),
  - D. the Statement of Project Construction Cost and Repayment for the function at the beginning of the fiscal year for which the interest applies, or
  - E. other financial data sources such as the Historical Financial Data (HFD).
7. **CIA.** Unless a statutory requirement exists, suspend the calculation and recording of IOI upon the transfer of a program or feature to CIA. Do not retroactively compute and record IOI for CIA facilities Reclamation subsequently transfers to Plant. IOI will resume upon the transfer of a CIA facility to Plant. Refer to RM D&S, *Plant Accounting-Construction in Abeyance (CIA)* (FIN 07-26), for further guidance on partial impairment.
8. **IOI Commencement.** IOI begins when construction is substantially complete and Reclamation transfers the asset to Plant. Reclamation performs an FCA when construction of a project is substantially complete. The final allocation determines the actual reimbursable and non-reimbursable costs for each project feature and is the basis for assignment of costs to beneficiaries for repayment.
9. **Termination of IOI.** IOI ceases upon full repayment of the investment.
10. **Methods for Computing Interest on Investment.**
- A. **IOI Repaid from Revenues.**

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- (1) **Average Unpaid Investment Balance Method.** The average unpaid investment balance method of calculating [finance charges](#) uses the average of the balance during the billing cycle. The daily [average](#) is the sum of the balance on each day of the billing divided by the number of days in the billing cycle. The calculation for the average daily balance method is the average daily balance times the APR times the days in billing cycle divided by 365. The average unpaid investment balance method is applicable to the power investment and the municipal and industrial water investment to be repaid from revenue except the Boulder Canyon Project, the Colorado River Basin Project, and the Colorado River Storage Project and participating projects, and the Columbia River Federal Power System projects. BPA deposits surplus revenues from the Columbia River Federal Power System projects in short-term interest bearing investments. The interest earned on these investments is included in the amounts available for repayment. This method assumes that net revenues, after the payment of interest, apply during the year to the repayment of the highest interest-bearing investment first.
  - (2) **The Boulder Canyon Project.** Calculate IOI on the basis of unrepaid advances from the Treasury, in accordance with the authorizing legislation using the legislatively mandated interest rate.
  - (3) **Colorado River Basin Project; Colorado River Storage Project and Participating Projects; and Columbia River Basin Project.** Calculate IOI by multiplying the unrepaid investment at the beginning of the fiscal year by the applicable interest rate.
- B. **IOI Repaid by Repayment Contract.** Calculate IOI for interest-bearing investments which are not repaid from income in accordance with the terms of the repayment contact.
- C. **Other Methods.**
- (1) **Western or BPA.** In some circumstances, Western or BPA calculates the amount of IOI. Western or BPA will provide Reclamation the applicable IOI on Reclamation generating assets only. Western is responsible for recording IOI for the Western transmission assets.
  - (2) **Amortization Schedules.** The regional accountant or Contracts and Repayment staff determines IOI and establishes an amortization schedule.
  - (3) **Rate Book Schedules.** Reclamation calculates IOI from the rate book schedule.

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### 11. Procedures for Recording IOI as an Imputed Cost.

#### A. IOI Repaid from Revenue.

- (1) At least annually, the regional accountant will post a journal voucher (JV) for the amount of IOI calculated by the methods in Paragraph 10 above. The pertinent elements are:
  - (a) transaction type FB50 or FV50,
  - (b) document type of VB,
  - (c) RX, RP, or RR WBS as applicable,
  - (d) commitment item of NA,
  - (e) debit General Ledger (GL) 6730.00000, *Imputed Costs*,
  - (f) credit GL 5780.Z0000, *Imputed Financing Source-Other*, and
  - (g) trading partner of 1406 on both GLs.
- (2) These entries will not derive any cash or budget general ledger accounts.
- (3) During fiscal year-end closing, GL 6730.00000 and GL 5780.Z0000 will close to GL 3310.A0000, *Cumulative Results of Operations-Operating*, resulting in a zero impact.

#### B. IOI Repaid by Repayment Contract.

- (1) The regional accounting technician prepares a bill (transaction type FB70) to the customer for principal and IOI on the basis of the repayment contract and its related repayment schedule. The creation of the bill debits GL 1310.A0000, *Accounts Receivable Revenue*, and credits GL 5900.Y0000, *Other Revenues-Water and Power*. Manually update the commitment item field with the appropriate commitment item listed below.
  - (a) Y24000, *Interest on Investment*,
  - (b) Y24N00, *Interest on Investment, N*<sup>1</sup>,
  - (c) Y24N30, *Interest on Investment/N-General Credit to Reclamation Fund*, or
  - (d) Y24N90, *Interest on Investment/N-General Fund, Treasury*.

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<sup>1</sup> "N" means land status is not applicable.

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- (2) Upon receipt of the payment from the customer, Denver or MP Regional Accounts Receivable staff posts a collection document that debits GL 1010.TCC00, *Collections of Revenue*, and credits GL 1310.A0000.
- (3) A regional accountant analyzes IOI transactions at least annually to confirm that all transactions have posted correctly and agree with the amounts listed in the repayment contracts. Upon completion of this analysis the accountant prepares a JV to recognize the imputed cost associated with the collected IOI. The pertinent elements are:
  - (a) transaction type FB50 or FV50,
  - (b) document type VB,
  - (c) RX, RP, or RR WBS as applicable,
  - (d) commitment item NA,
  - (e) debit GL 6730.00000, *Imputed Cost*,
  - (f) credit GL 5780.Z0000, *Imputed Financing Source-Other*, and
  - (g) trading partner of 1406 on both GL accounts.
- (4) These entries will not derive any cash or budget general ledger accounts.
- (5) During fiscal year-end closing, GL 6730.00000 and GL 5780.Z0000 will close to GL 3310.A0000, *Cumulative Results of Operations-Operating*, resulting in a zero impact.

## 12. Related References.

- A. [FIN 06-02](#), *Statement of Project Construction Cost and Repayment (SPCCR)*
- B. [FIN 06-30B](#), *Interest Rate Formula*
- C. [FIN 07-21](#), *Interest During Construction (IDC)* (formerly FIN 07-20-10)
- D. [FIN 07-26](#), *Construction in Abeyance (CIA)*
- E. [PEC P01](#), *Final Cost Allocations*
- F. [PEC 01-02](#), *Project Cost Allocation*
- G. Treasury Financial Manual ([TFM](#)) Supplement, U.S. Treasury [Annual Interest Rate Certification](#)

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### Procedures for Computing IOI for Investments Repaid from Revenue

1. **Average Unpaid Investment Balance Method.** This method recognizes that Reclamation collects and deposits revenues from power and municipal and industrial water sales into the Treasury monthly and therefore, monthly net revenues should be a consideration in the computation of the amount of IOI.
  - A. To eliminate the need for monthly computations, this method for computing annual IOI presumes the following:
    - (1) The application of Revenues to O&M and other expenses (except plant depreciation) occurs monthly.
    - (2) The remaining balance or net revenue is available monthly for repayment of the unpaid investment.
    - (3) Net revenues essentially flow uniformly throughout the year. For cases in which this assumption is unreasonable, compute net revenues and IOI monthly.
  - B. The priority of net revenue application is as follows:
    - (1) to the current year's IOI on the total Federal investment,
    - (2) to the unpaid prior year expenses (deficits), then
    - (3) to the amortization of investment in descending order of interest rates, except that Reclamation will first apply net revenues to any required repayment of investment.
2. **IOI COMPUTATIONS.**
  - A. Compute an initial estimate of annual IOI on the beginning of the fiscal year unpaid investment balances for each of the interest-bearing investments.
    - (1) **Investments Fully Repaid.** Re-compute the IOI expense on 1/2 of the investment balance outstanding at the beginning of the year because we presume revenues, and therefore repayments, flow uniformly throughout the year.
    - (2) **Investments Partially Repaid.** Re-compute the IOI by modifying the investment balance from a beginning of the year unpaid balance to an average unpaid investment balance by using the formula  $I = (U - ((R - U_i) / 2)) * i$  where:



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- (a)  $I$  = recomputed IOI on the highest interest-bearing investment for the fiscal year.
  - (b)  $U$  = the beginning unpaid balance of the highest interest-bearing investment due for partial repayment.
  - (c)  $R$  = the annual net revenues after deducting (1) IOI not repaid during the fiscal year and (2) IOI and principal on investments fully repaid during the fiscal year.
  - (d)  $U_i$  = the initial estimate of annual IOI per 2.A. above.
  - (e)  $i$  = the annual interest rate.
- (3) **Illustration of the interest computations.** See Figure 1 below.
- B. After deducting the total IOI computed in 2.A. above from net revenues, apply the remaining net revenues to the amortization of the investment bearing the highest interest rate. Re-compute the IOI expense from 2.A. above whenever revenues are sufficient to fully and/or partially repay any investments.
- C. Do not modify the IOI expense for investments not repaid during the fiscal year as no reduction in the outstanding investment balance has occurred.
- D. If net revenues do not flow in a reasonably uniform manner during the fiscal year, determine the net revenues for each month, and the IOI and repayment of principal computed on a monthly basis as follows:
- (1) Compute one month's IOI on all unpaid investment at the beginning of the month.
  - (2) Deduct that IOI from the monthly net revenues.
  - (3) Apply the excess net revenues to the highest interest-bearing investment.
- E. If net revenues are negative, charge additional IOI at 1/2 of the project interest rate on the deficit and the unpaid annual IOI due on the Federal investments in accordance with the Reclamation Project Act of 1939, section 6. Reclamation will defer this additional IOI, the annual IOI due on the investment, and the deficit until net revenues are available. See paragraph 1.B. above for the application of revenue. Reclamation will charge IOI at the project interest rate until receipt of repayment through net revenues.

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Figure 1

### Investment Project, Wyoming Interest on Investment

		1	2	3	4	5	6	7	8
Investment Component		Interest rate (i)	Unpaid investment @ 10/1/91 (U)	Initial estimate of annual interest – (col 1x2) (Ui)	Interest adjustment for principal repayments	Interest expense for year = 1 (col 3-4)	Revenue applied to repayment	Net revenue applied to int. & repayment (col 5+6) (R)	Unpaid investment @ 9/30/92 (col 2-6)
X	Red River Power plant Original cost	3.00%	\$20,000,000	\$600,000	\$0 <sup>1</sup>	\$600,000	\$0	\$600,000	\$20,000,000
Y	Addition FY 1975	4.00%	5,000,000	200,000	13,700 <sup>2</sup>	186,300	698,700 <sup>3</sup>	885,000	4,301,300
Z	Replacement FY 1980	6.00%	500,000	30,000	15,000 <sup>4</sup>	15,000	500,000	515,000	0
	TOTALS		\$25,500,000	\$830,000	\$28,700	\$801,300	\$1,198,700	\$2,000,000	\$24,301,300

ASSUMPTIONS	
Annual gross revenues	\$10,000,000
Annual expenses	8,000,000
Net revenues	\$2,000,000

CALCULATIONS		
Revenues		\$2,000,000
Less: Repayment & interest		
Invest Z (col 7)	\$515,000	
Int. on invest X	600,000	1,115,000
		\$885,000

$$I = (U - ((R - Ui)/2)) * i$$

$$I = (5,000,000 - ((885,000 - 200,000)/2)) \times .04 = 186,300$$

<sup>1</sup>Investment X - Revenues not available for any repayment.

<sup>2</sup>Investment Y – Estimate of annual interest less actual expense for the year. (Col 3-5)

<sup>3</sup>Col 7–5.

<sup>4</sup>Investment Z – Fully Repaid. Interest for ½ year.